

UNDERSTANDING HOUSE BILLS 4538, 4539 & 4540

A. History of House Bills 4538, 4539 & 4540

- House Bills 4538, 4539 and 4540 – sponsored by Representatives Bill McConico (D-Detroit), Virgil Smith (D-Detroit) and Ed Gaffney (R-Grosse Pointe Farms), respectively – were introduced on March 22, 2005, and referred to House Commerce Committee.
- The House legislation is part of a six-bill, bipartisan, bicameral package to address sharp increases in real property taxes that result– one of the unintended consequences of Proposal A. The other three bills – Senate Bills 526, 529 and 530 – were referred to Senate Finance Committee. (*See Attachment A*)

B. Contents of House Bills 4538, 4539 & 4540

- **House Bill 4538** would include “homestead facility” in the definition of property types that qualify for NEZ certificates. Currently, the Act only recognizes new construction, condominiums and properties in need of significant rehabilitation for tax relief, but there is no consideration for homes in established neighborhoods.

The definition of “homestead facility” would be a home **purchased after December 31, 1997**, that is used as the owner’s **primary residence** and located in a **subdivision platted before January 1, 1968**.

- **House Bill 4539** would designate 15 percent of a city’s total acreage exclusively for Neighborhood Enterprise Zones containing homestead facilities. Currently, the Act allows a city to earmark 15 percent of its total acreage for NEZs containing new construction, condos and/or rehabilitation facilities. **This bill would add an additional 15 percent solely for homestead facilities, so that a qualifying city could have up to 30 percent of its acreage set aside for NEZs.**

NOTE, TOO, THAT WHILE THE PACKAGE WOULD HAVE STATEWIDE APPLICABILITY, ONLY CERTAIN CITIES, VILLAGES AND TOWNSHIPS WOULD BE ALLOWED TO ESTABLISH NEZs FOR HOMESTEAD FACILITIES. THIS IS NOT NEW, BUT, RATHER, IS CURRENT LAW. (*See Attachment B*).

- **House Bill 4540** would replace the ad valorem real property tax with a specific tax known as the NEZ tax for homestead facilities; **make the specific tax equivalent to one-half the city and county operating millage rates plus all other applicable taxes** (school, libraries, community colleges, etc.); phase in increases to the specific tax over the last three years of the life of the NEZ certificate; and extend the potential life of an NEZ certificate to 6 to 15 years from 6 to 12.

C. Rationale behind House Bills 4538, 4539 & 4540

- Proposal A of 1994 caps annual growth in homeowners’ tax bills to 5 percent or the rate of inflation, whichever is less.
- Proposal A of 1994 allows local assessors to make annual adjustments in a home’s assessable value that can exceed 5 percent.
- Proposal A of 1994 allows a municipality to remove the cap on a home’s taxable value and raise that taxable value to the home’s higher assessable value, when the subject property is transferred from one owner to the next.
- The practical effect of this sudden adjustment of taxable values to assessable values is a significantly higher tax bill for a person wishing to buy a home in an established neighborhood than what the previous owner of that property may have been paying. Indeed, examples abound in Detroit of some homeowners’ tax bills tripling or quadrupling upon consummation of their buy-sell agreement, creating wide disparities in taxes paid by people living in the same neighborhood. (*See Attachment C*)

D. Benefits of House Bills 4538, 4539 & 4540

Passage of House Bills 4538, 4539 and 4540 would ...

- Mitigate the sharp decrease in population in urban core communities, such as Detroit, which has lost more than 500,000 people since 1975 and today has a population of about 911,000.
- Radically reduce the cost of living in Detroit, where insurance and educational expenses also are exorbitant.
- Stabilize established neighborhoods in Detroit.
- Promote owner occupancy -- not renting -- of homes in established Detroit neighborhoods.
- Curtail urban sprawl, which undermines city tax bases.
- Facilitate the mobility of current homeowners in the city to better Detroit neighborhoods.

E. Other Support Information

- Letter of support from Detroit Mayor Kwame M. Kilpatrick (*Attachment D*)
- Detroit Regional Chamber of Commerce Endorsement (*Attachment E*)
- Crain's Detroit Business, March 14, 2005, edition (*Attachment F*)
- The Detroit News, May 27, 2005, edition (*Attachment G*)

OPRA PROGRAM - LIST OF ELIGIBLE LOCAL UNITS OF GOVERNMENT

CITIES

Adrian	East Lansing	Jackson	Pontiac
Albion	Eastpointe	Kalamazoo	Portage
Alma	Ecorse	Lansing	Port Huron
Alpena	Escanaba	Lincoln Park	River Rouge
Ann Arbor	Ferndale	Livonia	Saginaw
Bangor	Flint	Ludington	St. Louis
Battle Creek	Gaastra	Manistee	Sault Ste. Marie
Bay City	Gibraltar	Manistique	Southfield
Benton Harbor	Gladstone	Marquette	Sturgis
Bessemer	Grand Haven	Melvindale	Taylor
Big Rapids	Grand Rapids	Menominee	Three Rivers
Bronson	Grayling	Midland	Traverse City
Burton	Hamtramck	Monroe	Trenton
Cadillac	Harbor Beach	Mt. Clemens	Vassar
Carson City	Harper Woods	Mt. Morris	Wakefield
Caspian	Hart	Mt. Pleasant	Warren
Center Line	Hartford	Muskegon	Wayne
Cheboygan	Hazel Park	Muskegon Heights	Wyandotte
Detroit	Highland Park	Norway	Wyoming
Dowagiac	Holland	Oak Park	Ypsilanti
	Inkster	Omer	
	Ionia	Onaway	
	Iron Mountain	Owosso	
	Iron River	Pinconning	
	Ironwood		
	Ishpeming		

TOWNSHIPS

Benton Charter Twp.
Buena Vista Charter Twp.
Genesee Twp.
Mt. Morris Charter Twp.
Redford Charter Twp.
Royal Oak Charter Twp.

VILLAGES

Baldwin

MILLAGE RATES FOR DETROIT AND WAYNE COUNTY

	Homestead	Non-Homestead
TAXING AUTHORITY	2004 MILLS	2004 MILLS
State Education	06.00000	06.00000
General City	19.96200	19.96200
Garbage Disposal	02.99430	02.99430
Debt Service	07.47960	07.47960
Library	03.63310	03.63310
School Operating	00.00000	18.00000
School Bond Debt	13.00000	13.00000
Wayne County Tax	06.63800	06.63800
Wayne County Jail	00.93810	00.93810
Wayne County Parks	00.24590	00.24590
Wayne County Huron Clinton Metropolitan Authority	00.21540	00.21540
Wayne County Intermediate School District (RESA)	00.09650	00.09650
Wayne County Intermediate School District Special Education (RESA)	03.36780	03.36780
Wayne County Community College District	02.48440	02.48440
City Millage/Tax	53.06900	71.06900
County Millage/Tax	13.98610	13.98610
Total Millage/Tax	67.05510	85.05510

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KWAME M. KILPATRICK, MAYOR
CITY OF DETROIT
EXECUTIVE OFFICE

June 13, 2005

D.

The Honorable Representative Bill Huizenga
Chair, House Commerce Committee
P.O. Box 30014
Lansing, MI 48909

Dear Chairman Huizenga:

As you know all too well, the fiscal challenges facing Michigan cities are many, precipitated in large part by major reductions in state revenue sharing to local units of government and steady abandonment of the state's urban core. Thus, it is imperative that we continually develop and promote creative ideas to retain remaining residents and attract new ones.

House Bills 4538, 4539 and 4540 represent just such a proposal. The City of Detroit enthusiastically supports the legislation and respectfully solicits your support for these bills.

Specifically, the bills seek to amend the Neighborhood Enterprise Zone Act (*Public Act 147 of 1992*) to cut real property taxes and address the challenges created by lifting the cap on taxable values during home sales.

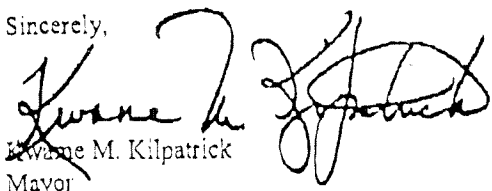
As you know, Proposal A of 1994 limits annual growth in homeowners' tax bills to 5 percent or the rate of inflation, whichever is less – *until a property transfers from one owner to the next, at which time a municipality is allowed to increase that property's taxable value to the higher assessable value*. The practical effect of this sudden adjustment to taxable value is a significantly higher tax bill for people wishing to buy a home in an established neighborhood than what the previous owner may have paid.

House Bills 4538, 4539 and 4540 tackle this very real problem by giving taxpayers immediate and tangible tax relief. That, undoubtedly, will stimulate investment in Detroit and other localities in the State of Michigan. It also will ...

- Mitigate the sharp decrease in population in Michigan's urban core centers.
- Radically reduce the cost of living in urban areas, where insurance and educational expenses also can be exorbitant.
- Stabilize established neighborhoods.
- Promote owner occupancy – not renting – of homes in established neighborhoods.
- Curtail sprawl, which undermines cities' tax bases.
- Facilitate the mobility of current homeowners in cities to better neighborhoods.

For all of these reasons, I fully endorse this package of bills and ask for your support. As always, thanks in advance for your time and consideration.

Sincerely,


Kwame M. Kilpatrick
Mayor



E.

Date: April 11, 2005

To: Whom It May Concern

From: Sarah Hubbard, Vice President, Public Affairs

RE: Neighborhood Enterprise Zone Legislation

The Detroit Regional Chamber supports efforts to maintain and revitalize neighborhoods in urban areas. In Detroit, desirable neighborhoods are experiencing significant increases in housing stock values – in some cases, pricing residents right out of the market when the cost of property taxes is taken into consideration.

House Bill 4538 (McConico), HB 4539 (Smith), and HB 4540 (Gaffney) together create a new tool for use by local units of government who find themselves in this situation. This package of legislation would provide homeowners with property tax relief for a period of 6 to 15 years. The final three years of the abatement would phase-in the increase in the tax liability until the full amount is owed when the certificate expires.

Creative tools which lessen the tax burden on residents in high tax areas should provide an incentive to attract and retain homeowners.

We urge you to support HB 4538 – 4540.

If you have any questions, please do not hesitate to contact me at 517.372.2278 or shubbard@detroitchamber.com



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Friday, May 27, 2005

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Pistons/NBA

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U-M

More Colleges



Charles V. Tines / The Detroit News

John Corvino opted to buy a Detroit home despite knowing he would pay a premium in property taxes. The Wayne State University philosophy professor bought a \$245,000 home in Sherwood Forest in 2002. His annual tax bill is about \$8,200.

Future of Detroit

Neighborhood rebirth stalls

High property taxes burden Detroit homeowners

By David Josar / The Detroit News

From a purely financial standpoint, buying a home in Detroit is a no-brainer: Don't do it.

That's what Barry Burton discovered last year after he found what he thought was his dream house for sale on Lodge Drive, a few doors away from the Manoogian Mansion.

There was a view of the Detroit River, an updated furnace and the property was immaculately kept, all for \$289,000. But then Burton, who returned to the city in the fall after working for the

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Eats & Drinks
-- Restaurants
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Tiger Talk
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Chicago mayor's office, discovered his annual tax bill would be about \$9,700.

"There was no way I could afford that," said Burton, who instead bought a two-flat home in Grosse Pointe with his sister for \$500,000.

"With the property taxes, income taxes, higher insurance rates ... it didn't make sense."

Along with crime, blight and underperforming schools, high property taxes are one of the main problems standing in the way of a Detroit renaissance. While city officials actively tout the need to get people like Burton back as city residents, the odds are stacked against them.

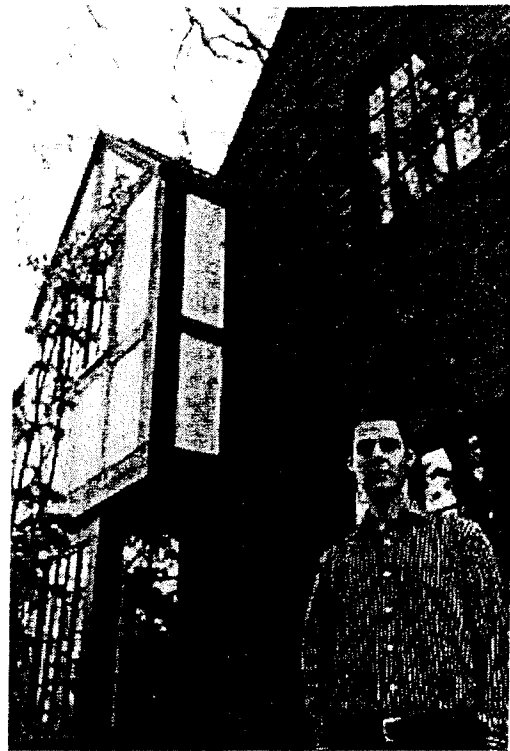
New families would mean more tax dollars and would help stabilize neighborhoods.

But Realtors and homeowners say many people willing to live in the city, despite the downside of urban life like the dearth of major grocery stores and high insurance rates, are scared off by the city taxes.

"The people we are losing are in the middle class, and no great city can exist without them," said Michael Einheuser, a Palmer Woods resident and attorney who is part of a group looking at ways to reduce the city tax burden.

"Young professional couples can afford a \$250,000 home, and they can choose to buy anywhere, but when they look at Detroit and run the math, it puts Detroit at a competitive disadvantage."

The property tax rate for Detroit property owners in 2005 is roughly 67 mills, one of the highest rates in the state,



Charles V. Tines / The Detroit News

Detroit John Corvino tries to convince people to move into Detroit by pitching the diversity of the population and the one-of-a-kind homes.

First in a series of occasional stories exploring issues facing Detroiters in a mayoral election year.

Overburdened

Property taxes homeowners would pay in selected Metro Detroit communities based on a recently purchased \$200,000 home. The tax rate includes county, city, school and all other local taxes, such as bond millages.

- Detroit (Detroit Public Schools): \$6,730
- Grosse Pointe (Grosse Pointe Public Schools): \$4,307
- Commerce Township (Huron Valley Schools): \$2,605
- Pleasant Ridge (Ferndale Public Schools): \$4,181
- Mount Clemens (Mount Clemens Community Schools): \$4,622
- Chesterfield Township (New Haven Community Schools): \$2,992

Source: The Michigan Department of Treasury database of millages billed in 2003

Detroit tax bills

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according to the state treasurer's office, and for many people their tax bill exceeds their mortgage payment.

A Detroiter with a newly purchased \$200,000 home will pay about \$6,700 in property taxes. By comparison, a \$200,000 home in Rochester has a local tax bill of \$3,367, or in Utica that homeowner would pay \$3,933 a year.

Because of Proposal A, which caps the amount a piece of property can increase in value until it is sold, longtime property owners usually pay a fraction of taxes new buyers do. For example a person who sells a home for \$200,000 that he or she owned for 20 years might have been paying half of the taxes the new buyer will pay.

That's what happened when state Rep. Bill McConico, D-Detroit, wanted to move his family from a house on Dequindre to a new one in Indian Village.

"The taxes would have been \$20,000 a year," said McConico, who has since sponsored a state law that would keep property taxes in some neighborhoods from increasing when they are sold. "We need to change that so people will move to Detroit and stay in Detroit."

The dilemma for Detroit officials is that cutting property taxes would require substantial reductions in city services, public policy experts say, an area that city residents already complain needs improvement.

The City Council and Mayor Kwame Kilpatrick have proposed budgets this spring that don't reduce taxes but substantially cut city services.

Detroit property owners receive tax bills twice a year. Also, a person who owns residential property in Detroit but does not live in the property pays an extra school tax.

Here is a look at the different taxes a homeowner pays on a recently purchased property with a value of \$200,000 based on the current tax rates. (In Michigan, taxes are computed on half of a property's taxable value. That value, however, can be capped and increases only the amount of inflation).

- State education tax 6 mills
 - General city tax 19.962 mills
 - Garbage disposal 2.9943 mills
 - Debt service 7.4796 mills
 - Library tax 3.63310 mill
 - School bond debt 13 mills
 - Wayne County tax 7.822 mills
 - Huron-Clinton Metropolitan Authority .2154 mills
 - Wayne County Community College 2.4844 mills
 - Intermediate School District 3.4643 mills
- Total : 67.0551 mills**
Tax bill: \$6,730

Politicians lay out plans

All three major candidates running for Detroit mayor say reducing the tax burden is important in order to attract new city residents and to keep people already living in the Motor City from moving away. Here are their plans:

Freman Hendrix

Hendrix wants to see the total property tax rate eventually drop to around 40 mills, in part by operating city services more efficiently and improving the collection rate of existing taxes.

"There are millions and millions that are uncollected," he said. He anticipates his plan will need five to seven years to reach the target millage rate. He would also overhaul the city's tax-abatement policy. He said too many developers and businesses are building in the city only after they have been offered tax abatements. The city can give other incentives, such as land and infrastructure improvements, without having to eliminate taxes "We want to use it more effectively," he said. Hendrix and his wife own a home in the



And while city officials have fostered new housing construction throughout the city, much of that has been done by offering temporary tax abatements to those purchasers. Critics say that practice makes it harder for people trying to sell existing homes, and they question what will happen to the housing market once those tax breaks expire.

"There really is no easy fix," said Douglas Drake, a former associate director of Wayne State University's State Policy Center and now an associate for a Lansing-based public policy firm.

All three major candidates running for mayor -- Kilpatrick, Freman Hendrix and Councilwoman Sharon McPhail -- have made reducing the city's 67-mill tax burden an important part of their campaign message.

Kilpatrick touts a proposal to create 22 "neighborhood enterprise zones" where property taxes would be reduced. Hendrix suggests slowly whittling down the tax rate and being more prudent with which developers and businesses can offer properties for sale without tax breaks. McPhail, too, would roll back the millage rate, but she would push for fairer assessments and legislation that would not penalize property owners for improving their homes.

Detroit's millage rate includes more than just a tax payable to the city. There is a separate millage for garbage disposal, debt service on a number of city-issued bonds that finance items ranging from police department upgrades to public lighting improvements, a

Rosedale Park section of the city with a "true cash value," according to city records, of \$257,100. But due to Proposal A, the taxable value is \$73,944. His 2004 taxes were \$5,011.

Sharon McPhail

McPhail also said the city's overall property tax rates must drop. As special millages expire, such as the ones for the library or city lighting, she says, they should be carefully analyzed before being renewed. She said the city has to ensure that millages



paid to Huron-Clinton Metropolitan Authority are either reduced or that city residents get more bang for their buck. She cites the expiring millage that was used in 1986 to purchase \$440 million bonds that allowed the city's waste incinerator to be built. McPhail also pledges a moratorium on any property tax increases and wants a better system where property owners can appeal the value that is placed on their property by local government. She wants to reduce the tax burden on the city tax bill by about 20 mills. McPhail and her husband, David Snead, own a home in the Berry Farms subdivision with a "true cash value" of \$216,000. Their annual tax bill for 2004 city taxes was \$9,115.

Kwame Kilpatrick

As mayor, Kilpatrick has touted a plan being proposed in Lansing to create 22 special zones in the city where taxable value would not be increased when a home is sold. Under current law, the taxable value of a property cannot increase more than inflation even though the true value of the house may have increased much more dramatically. He said such reform is needed to encourage people to buy homes in those neighborhoods, which tend to be the most expensive properties in the city. He also said the tax rate has hurt the city, as it drives out residents and is a barrier for new residents. Still, he said, Detroit property appreciates in value well and is better constructed than much of new housing being built in the suburbs. Kilpatrick does not own any property in



recently renewed and increased millage for the Detroit Public Library, a tax for a Detroit Public Schools bond program and a state education tax. There are also about a half-dozen other taxes that all Wayne County property owners pay.

Detroit's major problem is the city has an infrastructure built for 2 million people but now about 900,000 residents are paying for those services and maintenance, Drake said.

The suburban communities don't have to pay for aging sewer lines or an antiquated lighting system, he said, which lets those municipalities keep tax rates low.

Burton acknowledges living and paying taxes in Grosse Pointe gives him a host of quality municipal services he'd never find in Detroit.

He checks off a list that includes immaculate parks, outstanding public schools, a police department, he asserts, that will help you find a lost pet, and a city that plows every snow-covered street in the community.

Still, he is pained the house in Detroit he longed for carried too much tax liability.

"It hurts me that this didn't work out," said Burton, who before moving to Chicago had lived in East English Village. "I like the excitement of the city."

Wayne State University philosophy professor John Corvino, meanwhile, opted to buy a Detroit home despite knowing he would pay a premium in property taxes.

"You get a lot more for your dollar, said Corvino, a transplanted New Yorker who in 2002 bought a \$245,000 home in Sherwood Forest. His annual tax bill is about \$8,200, and that is after he successfully fought the assessor's office to have the value of his home reduced.

"City leaders need to realize that if you have money to live in some of the city's better neighborhoods -- Boston-Edison, East English Village, Sherwood Forest -- you have the money to live elsewhere," he said. "The city can't afford not to cut taxes."

Corvino said he tries to convince people to move into Detroit by pitching the diversity of the population and that the homes are charming, well-built, a good value and one-of-a-kind.

That's exactly the argument Kilpatrick uses to convince his friends to move to Detroit.

"You get so much more here than anywhere else," he said at a recent

Detroit and therefore does not pay property taxes. He and his wife sold their home on the near west side after he was elected mayor, and they live in the city-owned Manoogian Mansion.

CyberSurvey

Council vs. mayor

Detroit City Council unanimously voted to cut more than \$90 million from the police and fire department budgets and impose a 10 percent salary cut on workers. Police estimate 612 officers will be dismissed along with 120 fire personnel. Mayor Kwame Kilpatrick said the budget would badly compromise public safety and vowed to veto it. Council also scrapped the mayor's plan for a prepared food tax and property transfer tax, and restored money for food inspections and the city airport. Whose budget plan do you prefer?

☐ City Council's

☐ Mayor Kilpatrick's

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press conference.

Kilpatrick said he was able to sell two homes he owned on the west side of Detroit for triple what he paid for them.

"It's a good investment," said Kilpatrick, who no longer owns property in the city and now resides in the Manoogian Mansion. Houses in outlying areas aren't "built with brick the way they are in Detroit," he said. "Detroit houses are going to be around a lot longer than these new ones."

Drake said the city's tax rate must drop by a third to a half to be in line with that of outlying areas, which is nearly impossible.

The only way to do that would be to have city services drop proportionally, Drake said, a disastrous situation

"How is the city going to do that? Services already are at a level where it's an issue," Drake said.

Detroit Realtor Kenan Bakirci has seen first-hand the toll that Detroit's tax burden can take.

Bakirci specializes in upscale neighborhoods and homes that average around \$400,000.

In the past four years, he said, the market has simply bottomed out, in large part, he believes, because of the tax structure.

He cites several sales he has lost because a person's tax bill would surpass the yearly amount they pay off on their mortgage.

The problem is so bad, he said, that when clients get approved for a mortgage, they often must be approved for twice the loan amount to account for the taxes as well as the higher property insurance rates.

"It's staggering, the impact of the taxes," he said.

Compounding the problem, Bakirci believes, is upscale, new housing being built in pockets of the city that carry tax abatements, some as long as a decade.

"That discourages people from spending money in existing neighborhoods," he said.

He also questions what will happen in communities built using tax abatements when those exemptions expire.

"They could be valueless," Bakirci said, unless the tax abatement is extended to entice a new buyer.

Einheuser, the lawyer who lives in Palmer Woods and whose dad was a Detroit firefighter, said despite the city's woes, it has no choice but to cut taxes if it wants to attract new residents and keep those it already has.

"Lots of folks are willing to look at Detroit as a place to live," Einheuser said. "If the city doesn't act affirmatively, market forces will force it to act as the middle class continues to leave. Let's recognize this now and do it now."

You can reach David Josar at (313) 222-2073 or [djoser@detnews.com](mailto:djosar@detnews.com).

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The shrinking middle

Detroit's middle class, tired of taxes, tuition and insurance costs, heads for the suburbs

BY ROBERT ANKENY
CRAIN'S DETROIT BUSINESS

Joe Neal and his wife, Sarah, lived in Detroit's Palmer Woods for nearly eight years before they moved to Birmingham in September 2003.

The reasons: taxes and schools.

"The hardest part, far and away, was leaving that neighborhood," the **Ford Motor Co.** engineer said.

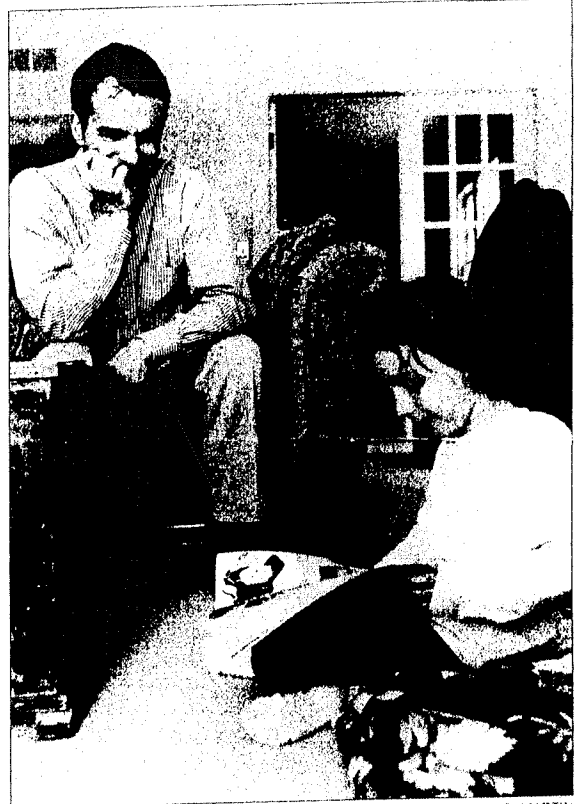
It's been very hard for the city of Detroit, too, as hundreds of families like the Neals have left the city in recent years. This outmigration of middle-class, working-age families has cost Detroit a loss of revenue for both the city and the schools.

Detroit's population has declined by more than 750,000 since 1960, had dropped below 1 million at the 2000 census and below 900,000 by February 2005, according to estimates from the **South-east Michigan Council of Governments**.

The outflow is heavy among middle-class and middle-income families, according to an analysis of **U.S. Bureau of Census** data by Kurt Metzger, director of the **Michigan Metropolitan Information Center** at **Wayne State University**.

Between 1995 and 2000, almost 150,000 people moved out of Detroit, while only 71,600 moved in, for a net loss of 78,232, Metzger said. Nearly 36,000 of those live in households with incomes of more than \$50,000 (see charts, below).

See Migrate, Page 33

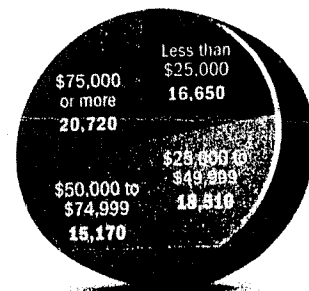
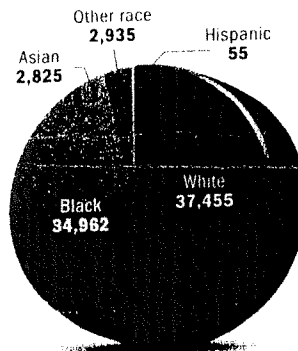


JOHN F. MARTIN

Joe Neal and his daughter Mary miss their former neighborhood in Detroit. Neal and his wife, Sarah, admit it was a tough decision to move to Birmingham, but they did it for the quality of the schools and lower taxes.

NET LOSS OF POPULATION

Between 1995 and 2000, almost 150,000 people moved out of Detroit, while only 71,600 moved in, for a net loss of 78,232. Shown is how the loss is reflected by race and by income.



Source: U.S. Census Bureau

who decided to leave Detroit during those years.

Both Joe, who came from a small town in Oklahoma, and Sarah, who had lived in Washington, D.C., felt that Detroit might be a good urban community in which to start their family.

Neal, 42, had moved to Detroit in October 1992 for the Ford job, and first lived in Royal Oak for two years.

"I have relatives in the area, and they loved giving me tours of the city. When I saw the reasonable prices of some houses in Palmer Woods, I was amazed," Neal said.

Neal and his wife couldn't pass up the opportunity, so they bought a house in Palmer Woods for \$215,000 in December 1995.

Then, two things happened. "One, obviously, was that our daughter was reaching kindergarten age." Mary, now 6, had been attending preschool at private **Roepers School** in Bloomfield Hills. Continuing private school "would be part of staying in Detroit."

The other thing happening in Palmer Woods and other stable, affluent Detroit neighborhoods, was that homeowners who saw their property values climb were becoming fearful that the city's high tax rate would make it tougher to sell their houses.

Michael Einheuser, president of **Einheuser & Associates Financial Services L.L.C.** in Royal Oak, lives in Palmer Woods and says he has watched the outmigration phenomenon with dismay.

"But why would a young professional couple buy their first or second home in Detroit, when they can afford to buy a \$250,000 home in Royal Oak? Would they choose to pay \$4,700 in property taxes there or more than \$8,000 in Detroit?" Einheuser asked.

Einheuser is a lifelong Detroit resident, a former Wayne State University governor and a one-time aide to the late Mayor Coleman Young. He said he also blames the loss of a residency requirement for city workers and public school teachers, in part, for Detroit's residency dilemma.

He said if those earning their living in the city won't live there, it sets a bad example all around.

Neal sold the Palmer Woods house for \$475,000 in 2003. The Detroit millage applied to the revised valuation for the new owner meant a tax bill of almost \$16,000.

Proposed law changes pending in Lansing would give residents in Detroit and other cities tax breaks when their assessments jump up on a newly purchased homes. (See *Crain's March 7, page 38.*)

Neal said that his annual property tax bill in Palmer Woods was about \$9,750 in 2003, based on Detroit's homestead tax rate of 67.0551 mills applied to a valuation of about \$145,400.

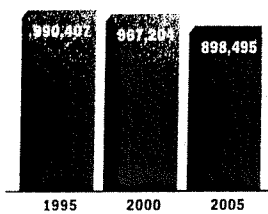
Neal said his family bought a more expensive, although smaller, house in Birmingham, valued at about \$560,000. Taxes on that new home are more than \$12,000, at Birmingham's homestead millage rate of 44.051 mills.

In addition to the property taxes, Neal and his wife would be paying the 3 percent resident Detroit

DECLINING NUMBERS

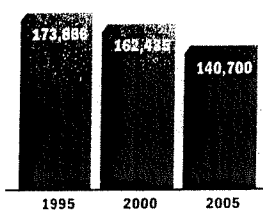
Population, school enrollment and taxes have declined in the past 10 years.

Population



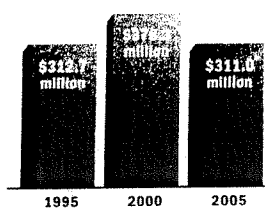
Source: U.S. Census and SEMCOG estimates

School enrollment (as of June)



Source: Detroit Public Schools

Income tax revenue (FY end)



* Budgeted, not actual
Source: City of Detroit

MILLAGE RATES

Annual property taxes for a \$250,000 home with a state equalized value of \$125,000 in various communities.

Community	School district	Millage rate*	Property tax
Detroit	Detroit	67.0551	\$8,381.89
Canton Twp.	Plymouth-Canton	26.2975	\$3,287.19
Dearborn	Dearborn Schools	45.9053	\$5,738.16
Dearborn Heights	Crestwood	39.9717	\$4,996.46
Grosse Pointe Farms	Grosse Pointe	43.3108	\$5,413.85
Livonia	Livonia	34.4667	\$4,308.34
Westland	Wayne-Westland	39.3145	\$4,914.31

Source for millage rates: 2004 Apportionment Report, Wayne County

city income tax, and homeowners insurance in Detroit was \$3,600 a year versus \$850, he said.

Also, auto insurance is much cheaper, too, Neal said. He didn't mention that Detroit charges a tax on utility bills.

Taxes and schools are significant issues keeping young professionals and middle-class working families from moving in and forcing many of them out, but a lack of services and amenities factor in, too.

One young professional, who had lived and worked in Detroit for more than 12 years since moving from the East Coast, moved to Macomb County last year after he and his wife had their first child.

Speaking on condition he not be named, the man said the move was about safety and schools.

"You don't realize what a different climate there is until you're walking the street, going to a library that has what you need, seeing mothers with little kids doing the same," he said.

Jideofor Dallah works at **Ford Motor Co.** in Dearborn as a health plan buyer in the global health care purchasing group. He is 30 and single, and owns his home in Oak Park, where he moved with his parents at age 5.

He graduated from **University of Detroit Jesuit High School**, earned a bachelor's degree from the **University of Michigan** in 1999, and took his first job in Detroit. Even with many friends and relatives in the city, Dallah said he wouldn't consider living in town.

"First, city services are so poor. And the political structure needs more accountability from City Council. It needs council members elected by district. How am I, an individual, accounted for in a big city like Detroit? In Oak Park, you can

at least touch council members."

Dallah also points to Detroit's high tax rate as a barrier to getting young professionals or families to move in or stay.

"It's pure economics. Taxes are higher in Detroit and costs for other things don't go down.

"... I can't wait for the city to get done developing and building the whole RiverWalk," he said. But unless issues of high taxes, weak schools and poor services are addressed, "there is no market, no business case for moving into Detroit, and no amount of tax abatements is going to justify a business case."

Other Detroiters, though, say the city offers advantages not found in the suburbs.

"We've always said we're never going to move out of the city," said Kevin Prihod, who lives with his wife, Mary Zatina, in the Boston-Edison district.

A former manufacturing consultant who has been chief science officer at the **New Detroit Science Center** since 2003, Prihod, 49, grew up in Chicago.

He moved to Detroit and bought his house in Boston-Edison in 1981.

"We like Boston-Edison as a neighborhood. It's stable and we know hundreds of people. I have friends in the suburbs who never get to know anybody, even the family next door," he said.

Prihod said when he came in 1981 Detroit was in the midst of a crack cocaine epidemic. "Crime was a serious concern and not without basis."

But things have improved, Prihod said. "That doesn't mean things can't get better, but it doesn't weigh on my mind as much. I've never been the target of a car theft or vandalism, no violent

crime or close to it," he said.

Prihod believes that charter schools can help give families with children more options to stay in the city. He also would like to see Detroit's City Council elected on a ward basis, to make council members more accountable to specific neighborhoods.

Prihod's wife, Mary Zatina, has commuted 90 miles daily to work in Lansing since January 2003 as chief of staff for Dan Mulhern, husband of Gov. Jennifer Granholm.

"I choose to live in Detroit, where I was born and raised, to be in a diverse neighborhood, shop in diverse stores. I don't want to live where everyone and everything looks the same," said Zatina, 45.

"That may sound a bit harsh, but living in Detroit is deliberate for me, not by accident. I love our old house, recycling and making use of older stuff before it's discarded," Zatina said.

Shirley Williams, born and raised in Detroit, is a communications manager at the **Detroit Area**



Williams

Agency on Aging, where she has worked for four years.

A **Detroit Public Schools** and **Wayne State University** graduate, Williams, 34, now rents a home in Indian Village, where she moved from northwest Detroit three years ago.

"A lot of my friends have moved out of Detroit because it's cheaper in lot of areas of suburbs, cheaper for rent, taxes and car insurance. And for those with families, they feel it's safer for their children, better school systems, lower taxes on homes," she said.

Williams has made a conscious effort to remain in the city. "I don't see leaving anytime soon; I think, hopeful that Detroit can have a re-growth."

Williams said she might consider moving if she had young children, but at the same time, she has many friends who work for Detroit Public Schools who are committed to their jobs.

In short, she isn't ready to give up.

"One thing about Detroit," Williams said. "Those who live here are very committed."

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